

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer

Report on
Examination

COUNTY OF ARENAC

December 31, 2003



Local Audit and Finance Division
Bureau of Local Government Services

Total Number of Copies Printed: 40
Total Cost: \$130.48
Cost Per Copy: \$3.26

**Amount included in contract costs
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COUNTY OF ARENAC
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Drain Commissioner

James Mosciski
Sheriff

Curtis G. Broughton
Prosecuting Attorney

COUNTY POPULATION--2000
17,269

STATE EQUALIZED VALUATION--2003
\$612,484,060



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 11, 2004

County of Arenac
Board of County Commissioners
120 North Grove Street
Standish, Michigan 48658

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying general purpose financial statements of Arenac County, Michigan, as of and for the year ended December 31, 2003, as listed in the Table of Contents. These general purpose financial statements are the responsibility of Arenac County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Arenac County Road Commission (special revenue component unit) which statements reflect total assets of \$2,009,980 as of December 31, 2003 and total revenues of \$3,762,626 for the year then ended. These financial statements were audited by other auditors. Our opinion on the financial statements, insofar as it relates to the amounts included for the Arenac County Road Commission in the component units column, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As described more fully in Note B, the county has not maintained a record of its general fixed assets except those recorded by the Road Commission; and accordingly, the statement of general fixed assets included in this report does not include all of the general fixed assets of the county, as required by accounting principles generally accepted in the United States of America. Determination of the value of the county's general fixed assets was not possible.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Arenac County as of December 31, 2003; and

the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2004 on our consideration of Arenac County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Arenac County, taken as a whole. The accompanying supplemental and related information in Exhibits F through P and Schedule 1 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Arenac County. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs (Schedule 2 and Schedule 3) are presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ARENAC

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ARENAC COUNTY
COMBINED BALANCE SHEET--ALL FUND TYPES, ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2003

EXHIBIT A

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUP
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Long-Term Debt
ASSETS							
Cash and Cash Equivalents	\$ 24,604	\$ 445,282			\$ 1,865,668	\$423,408	
Investments		475,052		\$61,713	389,647		
Receivables							
Taxes--Current Levy	2,121,465	1,208,259					
Taxes--Delinquent					938,179		
Special Assessments							
Notes		964,268					
Accounts	3,890	7,541			728		
Due From Counties	39,058	46,923					
Due From Townships	1,194						
Due From State	37,075	56,888					
Due From Other Governmental Units					8,709		
Due From Other Funds--Primary Government	152,000					5,892	
Due From Other Funds--Component Units	500						
Inventory							
Prepaid Expense							
Advances to Other Funds--Primary Government	3,000						
Advances to Other Funds--Component Units	47,000						
Advances to Other Governmental Units					10,346		
Property, Plant and Equipment							
Net of Accumulated Depreciation							
Amount to be Provided for Retirement of Long-Term Debt							\$945,153
Total Assets	\$2,429,786	\$3,204,213	\$ -	\$61,713	\$3,213,277	\$429,300	\$945,153
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts Payable	\$ 101,992	\$ 43,037			\$ 2,461		
Due to Other Funds--Primary Government	5,892	55,000			97,000		
Due to Other Funds--Component Units							
Due to Other Counties		12,418					
Due to State		33,501			5,740	\$ 39,669	
Undistributed Tax Collections						192,620	
Undistributed Penal Fines						87,739	
Accrued Liabilities	30,936	15,856					
Other Liabilities						109,272	
Bonds Payable							\$620,000
Installment Purchase Agreement Payable							152,561
Advances From State							
Advances From Other Funds--Primary Government		3,000					
Deferred Revenue--Taxes	2,121,465	1,208,259					
Deferred Revenue--Other		983,136					
Vested Employee Benefits Payable							172,592
Total Liabilities	2,260,285	2,354,207	\$ -	\$ -	105,201	429,300	945,153
Fund Equity							
Investment in General Fixed Assets							
Retained Earnings							
Unreserved					3,108,076		
Fund Balance							
Reserved for							
Long-Term Advances to Other Funds	50,000						
Prepaid Expenses							
Inventory							
FEMA		13,231					
Capital Projects				61,713			
Unreserved--Undesignated	119,501	836,775					
Total Fund Equity	169,501	850,006	-	61,713	3,108,076	-	-
Total Liabilities and Fund Equity	\$2,429,786	\$3,204,213	\$ -	\$61,713	\$3,213,277	\$429,300	\$945,153

ARENAC COUNTY
COMBINED BALANCE SHEET--ALL FUND TYPES, ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2003

EXHIBIT A
(CONTINUED)

	TOTAL (MEMORANDUM ONLY)	DISCRETE COMPONENT UNITS				TOTAL (MEMORANDUM ONLY)
	Primary Government	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Reporting Entity
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 2,758,962	\$ 876,668	\$2,646	\$306	\$142,972	\$ 3,781,554
Investments	926,412					926,412
Receivables						
Taxes--Current Levy	3,329,724					3,329,724
Taxes--Delinquent	938,179					938,179
Special Assessments	-				52,813	52,813
Notes	964,268					964,268
Accounts	12,159	6,839	500			19,498
Due From Counties	85,981					85,981
Due From Townships	1,194	2,147				3,341
Due From State	93,963	267,776				361,739
Due From Other Governmental Units	8,709					8,709
Due From Other Funds--Primary Government	157,892					157,892
Due From Other Funds--Component Units	500				37,503	38,003
Inventory	-	186,135				186,135
Prepaid Expense	-	21,541				21,541
Advances to Other Funds--Primary Government	3,000					3,000
Advances to Other Funds--Component Units	47,000					47,000
Advances to Other Governmental Units	10,346					10,346
Property, Plant and Equipment						
Net of Accumulated Depreciation	-	611,378				611,378
Amount to be Provided for Retirement of Long-Term Debt	945,153	37,496			372,230	1,354,879
Total Assets	\$10,283,442	\$2,009,980	\$3,146	\$306	\$605,518	\$12,902,392
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 147,490	\$ 66,157	\$2,509			\$ 216,156
Due to Other Funds--Primary Government	157,892		500			158,392
Due to Other Funds--Component Units	-				\$ 37,503	37,503
Due to Other Counties	12,418					12,418
Due to State	78,910	22,954				101,864
Undistributed Tax Collections	192,620					192,620
Undistributed Penal Fines	87,739					87,739
Accrued Liabilities	46,792	10,992				57,784
Other Liabilities	109,272					109,272
Bonds Payable	620,000				372,230	992,230
Installment Purchase Agreement Payable	152,561					152,561
Advances From State	-	148,691				148,691
Advances From Other Funds--Primary Government	3,000				47,000	50,000
Deferred Revenue--Taxes	3,329,724					3,329,724
Deferred Revenue--Other	983,136	90,756			52,813	1,126,705
Vested Employee Benefits Payable	172,592	37,496				210,088
Total Liabilities	6,094,146	377,046	3,009	\$ -	509,546	6,983,747
Fund Equity						
Investment in General Fixed Assets	-	611,378				611,378
Retained Earnings						
Unreserved	3,108,076					3,108,076
Fund Balance						
Reserved for						
Long-Term Advances to Other Funds	50,000					50,000
Prepaid Expenses	-	21,541				21,541
Inventory	-	186,135				186,135
FEMA	13,231					13,231
Capital Projects	61,713					61,713
Unreserved--Undesignated	956,276	813,880	137	306	95,972	1,866,571
Total Fund Equity	4,189,296	1,632,934	137	306	95,972	5,918,645
Total Liabilities and Fund Equity	\$10,283,442	\$2,009,980	\$3,146	\$306	\$605,518	\$12,902,392

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended December 31, 2003

EXHIBIT B

	GOVERNMENTAL FUND TYPES				TOTAL (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	Primary Government
Revenues					
Taxes	\$ 2,078,078	\$ 1,236,677			\$ 3,314,755
Licenses and Permits	10,831	139,106			149,937
Federal Grants	126,842	402,057			528,899
State Grants	765,187	145,256			910,443
Contributions From Local Units	61,740				61,740
Charges for Services	836,417	198,371		\$ 14,250	1,049,038
Fines and Forfeits	16,224	3,695			19,919
Interest and Rentals	25,535				25,535
Other	218,587	84,604		4,911	308,102
Total Revenues	4,139,441	2,209,766	\$ -	19,161	6,368,368
Expenditures					
Current					
Legislative	88,165				88,165
Judicial	858,891	126,767			985,658
General Government	880,466	22,664			903,130
Public Safety	930,067	930,142			1,860,209
Public Works	3,302				3,302
Health and Welfare	298,441	1,023,756			1,322,197
Recreation and Cultural		43,390			43,390
Other	824,872			138	825,010
Capital Outlay	47,380	102,563		110,816	260,759
Debt Service					
Principal	45,171		35,000		80,171
Interest and Fiscal Fees	11,196		28,235		39,431
Total Expenditures	3,987,951	2,249,282	63,235	110,954	6,411,422
Excess of Revenues Over (Under) Expenditures	151,490	(39,516)	(63,235)	(91,793)	(43,054)
Other Financing Sources (Uses)					
Operating Transfers In--Primary Government	110,053	244,278	63,235	45,064	462,630
Operating Transfers (Out)--Primary Government	(241,278)	(73,768)			(315,046)
Operating Transfers (Out)--Component Unit	(15,000)				(15,000)
Total Other Financing Sources (Uses)	(146,225)	170,510	63,235	45,064	132,584
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	5,265	130,994	-	(46,729)	89,530
Fund Balance--January 1, 2003	164,236	719,012	-	108,442	991,690
Restatement of Fund Balance					-
Restated Fund Balance-January 1, 2003	164,236	719,012	-	108,442	991,690
Fund Balance--December 31, 2003	\$ 169,501	\$ 850,006	\$ -	\$ 61,713	\$ 1,081,220

ARENAC COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended December 31, 2003

EXHIBIT B
(CONTINUED)

	DISCRETE COMPONENT UNITS				TOTAL (MEMORANDUM ONLY)
	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Reporting Entity
Revenues					
Taxes					\$ 3,314,755
Licenses and Permits	\$ 6,488				156,425
Federal Grants	307,873				836,772
State Grants	2,487,053				3,397,496
Contributions From Local Units	329,118	\$ 3,950		\$ 37,499	432,307
Charges for Services	615,797	800			1,665,635
Fines and Forfeits					19,919
Interest and Rentals	9,572				35,107
Other	6,725	4,400		25,113	344,340
Total Revenues	3,762,626	9,150	\$ -	62,612	10,202,756
Expenditures					
Current					
Legislative					88,165
Judicial					985,658
General Government					903,130
Public Safety					1,860,209
Public Works	3,465,105			10,308	3,478,715
Health and Welfare		31,104			1,353,301
Recreation and Cultural					43,390
Other					825,010
Capital Outlay	242,586				503,345
Debt Service					
Principal				21,651	101,822
Interest and Fiscal Fees				23,184	62,615
Total Expenditures	3,707,691	31,104	-	55,143	10,205,360
Excess of Revenues Over (Under) Expenditures	54,935	(21,954)	-	7,469	(2,604)
Other Financing Sources (Uses)					
Operating Transfers In--Primary Government		15,000			477,630
Operating Transfers (Out)--Primary Government					(315,046)
Operating Transfers (Out)--Component Unit					(15,000)
Total Other Financing Sources (Uses)	-	15,000	-	-	147,584
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	54,935	(6,954)	-	7,469	144,980
Fund Balance--January 1, 2003	993,017	7,091	306	88,503	2,080,607
Restatement of Fund Balance	(26,396)				(26,396)
Restated Fund Balance-January 1, 2003	966,621	7,091	306	88,503	2,054,211
Fund Balance--December 31, 2003	\$ 1,021,556	\$ 137	\$ 306	\$ 95,972	\$ 2,199,191

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL--GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2003

EXHIBIT C

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes and Penalties	\$ 2,078,345	\$ 2,078,078	\$ (267)	\$ 1,236,678	\$ 1,236,677	\$ (1)
Licenses and Permits	10,630	10,831	201	140,256	139,106	(1,150)
Federal Grants	125,281	126,842	1,561	470,204	402,057	(68,147)
State Grants	827,087	765,187	(61,900)	134,784	145,256	10,472
Contributions From Local Units	64,958	61,740	(3,218)			
Charges for Services	856,731	836,417	(20,314)	181,155	198,371	17,216
Fines and Forfeits	28,000	16,224	(11,776)	3,695	3,695	-
Interest and Rents	48,154	25,535	(22,619)			
Other Revenue	257,526	218,587	(38,939)	112,878	84,604	(28,274)
Total Revenue	4,296,712	4,139,441	(157,271)	2,279,650	2,209,766	(69,884)
Expenditures						
Current						
Legislative	96,225	88,165	8,060			
Judicial	981,409	858,891	122,518	149,310	126,767	22,543
General Government	910,898	880,466	30,432	27,510	22,664	4,846
Public Safety	939,427	930,067	9,360	986,763	930,142	56,621
Public Works	3,305	3,302	3			
Health and Welfare	301,720	298,441	3,279	1,031,532	1,023,756	7,776
Recreation and Cultural				45,000	43,390	1,610
Other	927,427	824,872	102,555			
Capital Outlay	29,213	47,380	(18,167)	155,274	102,563	52,711
Debt Service						
Principal	45,171	45,171	-			
Interest and Fiscal Fees	11,196	11,196	-			
Total Expenditures	4,245,991	3,987,951	258,040	2,395,389	2,249,282	146,107
Excess of Revenues Over (Under)						
Expenditures	50,721	151,490	100,769	(115,739)	(39,516)	76,223
Other Financing Sources (Uses)						
Operating Transfers In						
Primary Government	123,149	110,053	(13,096)	269,792	244,278	(25,514)
Operating Transfers (Out)						
Primary Government	(255,601)	(241,278)	14,323	(81,109)	(73,768)	7,341
Component Units	(15,000)	(15,000)	-			
Total Other Financing Sources (Uses)	(147,452)	(146,225)	1,227	188,683	170,510	(18,173)
Excess of Revenues and Other						
Sources Over (Under)						
Expenditures and Other Uses	(96,731)	5,265	101,996	72,944	130,994	58,050
Fund Balance--January 1, 2003	96,728	164,236	67,508	633,262	719,012	85,750
Fund Balance--December 31, 2003	\$ (3)	\$ 169,501	\$ 169,504	\$ 706,206	\$ 850,006	\$ 143,800

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS--ALL PROPRIETARY FUND TYPES
For the Year Ended December 31, 2003

EXHIBIT D

	PROPRIETARY FUNDS
	<u>Enterprise Funds</u>
Operating Revenues	
Interest on Delinquent Taxes	\$ 166,979
Property Tax Administration Fees	63,717
Expense of Sale	384
Charges for Services	3,239
Other Operating Revenue	<u>12,376</u>
Total Operating Revenues	<u>246,695</u>
Operating Expenses	
Supplies and Materials	<u>33,190</u>
Total Operating Expenses	<u>33,190</u>
Net Operating Income	<u>213,505</u>
Nonoperating Revenues (Expenses)	
Interest Earned on Deposits	<u>25,821</u>
Total Nonoperating Revenues (Expenses)	<u>25,821</u>
Income Before Operating Transfers	<u>239,326</u>
Operating Transfers	
Operating Transfers (Out)	<u>(147,584)</u>
Total Operating Transfers	<u>(147,584)</u>
Net Income (Loss)	91,742
Retained Earnings--January 1, 2003	<u>3,016,334</u>
Retained Earnings--December 31, 2003	<u><u>\$ 3,108,076</u></u>

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
PROPRIETARY FUND TYPES
For the Year Ended December 31, 2003

EXHIBIT E

	Enterprise Funds
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 2,511
Interest on Delinquent Taxes	166,979
Property Tax Administration Fees	69,755
Expense of Sale	(1,585)
Other Operating Revenue	12,376
Delinquent Taxes Purchased	(1,474,560)
Delinquent Taxes Collected	1,518,356
Cash Payments to Suppliers for Goods and Services	(31,139)
Net Cash Provided by Operating Activities	<u>262,693</u>
Cash Flows From Noncapital Financing Activities	
Due From Other Funds--Primary Government	20,751
Due From Other Funds--Component Units	17,542
Due to Other Funds--Primary Government	97,000
Advance to Other Funds--Primary Government	5,678
Transfers (Out)	(147,584)
Net Cash Provided by Noncapital Financing Activities	<u>(6,613)</u>
Cash Flows From Investing Activities	
Sale or (Purchase) of Investments	(3,794)
Interest on Cash Equivalents	25,821
Net Cash Provided by Investing Activities	<u>22,027</u>
Net Increase (Decrease) in Cash and Cash Equivalents	278,107
Cash and Cash Equivalents--January 1, 2003	<u>1,587,561</u>
Cash and Cash Equivalents--December 31, 2003	<u><u>\$ 1,865,668</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 213,505
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Increase (Decrease) in Accounts Receivable	(728)
Increase (Decrease) in Due From Other Units	6,038
Increase (Decrease) in Delinquent Taxes Receivable	43,796
Increase (Decrease) in Accounts Payable	2,051
Increase (Decrease) in Due to State	(1,969)
Net Cash Provided by Operating Activities	<u><u>\$ 262,693</u></u>

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES

Arenac County, Michigan, was organized in 1883 and covers an area of 366 square miles divided into 12 townships, 3 cities and 3 villages. The county is governed by an elected five member board of commissioners and provides services to its more than 17,269 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units discussed in Note B are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the combined financial statements include the financial data of the Arenac County Road Commission, Arenac County Economic Development Corporation (EDC), Brownfield Redevelopment Authority and the Arenac County Drain Commission. These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

BLENDED COMPONENT UNIT

Building Authority

The Arenac County Building Authority is governed by a 5 member board appointed by the county board of commissioners. Although it is legally separate from the county, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings.

Arenac County Housing Commission

The Arenac County Housing Commission was created on March 17, 1975 in the State of Michigan, under the provisions of Public Act 18 of the Extra Session of 1933, as amended. A 5-member board appointed by the Arenac County Board of Commissioners administers the Housing Commission. Although it is legally separate from the county, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County of Arenac. The Arenac County Board of Commissioners approves all grants received by the Housing Commission.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES (Continued)

DISCRETELY PRESENTED COMPONENT UNITS

Road Commission

The Arenac County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval.

Economic Development Corporation

The Arenac County Economic Development Corporation (EDC) was established pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its eleven-member board of directors. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county.

Brownfield Redevelopment Authority

The Arenac County Brownfield Redevelopment Authority (BRA) was established pursuant to the provisions of Public Act 381 of 1996, as amended. The BRA is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its eleven-member board of directors. The BRA may not issue debt without the county's approval and the BRA administers the County's Brownfield Redevelopment Authority Fund established to facilitate the implementation of Brownfield plans relating to the identification and treatment of environmentally distressed (functionally obsolete and/or blighted) areas so as to promote revitalization within the municipal limits of Arenac County.

Drain Commission

The Arenac County Drain Commission was established pursuant to the Drain Code of 1956. The drain commissioner has the responsibility to administer the State Drain Code, which involves planning, developing, and maintaining surface water drainage systems within the county. The Arenac County Drain Commission may issue debt or levy a tax as authorized by the Drain Code without the approval of the county board of commissioners.

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES (Continued)

Administrative Offices

Arenac County Housing Commission
120 North Grove Street
Standish, Michigan 48658

Arenac County Road Commission
116 Bridge Street
Omer, Michigan 48649

Arenac County Economic Development Corporation
120 North Grove Street
Standish, Michigan 48658

Arenac County Drain Commission
120 North Grove Street
Standish, Michigan 48658

Arenac County Brownfield Redevelopment Authority
120 North Grove Street
Standish, Michigan 48658

Jointly Governed Organization--Central Michigan District Health Department

Arenac County, in conjunction with Arenac, Gladwin, Isabella, Osceola and Roscommon counties, has created the Central Michigan District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Isabella County, as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation.

Member counties' percentages of the net operating budget for 2003 were:

Arenac	10.54%	Isabella	28.48%
Gladwin	14.38%	Osceola	12.46%
Clare	16.86%	Roscommon	17.28%

Arenac County's 2003 formula appropriation to the District Health Department was \$125,997.

Jointly Governed Organization--Bay Arenac Community Mental Health Services Board

Arenac County, in conjunction with Bay County, has created the Bay Arenac Community Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended. Community Mental Health Services Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by the respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Bay County, as a discretely presented component unit. The funding of the Mental Health Authority operations is based pro rata on each unit's population to the district's total population.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES (Continued)

Arenac County's 2003 appropriation to the Mental Health Board was \$104,812.

Related Organizations--Arenac County Council on Aging

Arenac County Council on Aging is a non-profit corporation. The council is a legally separate organization established for providing and promoting services to the aged and disabled. The voters approved a special millage to fund the Council on Aging.

The council consists of the entire geographic area of Arenac County. It is governed by not more than 15 or less than 12 board members. Members serve for up to two consecutive three-year terms and are elected by a majority of the presiding board. Upon dissolution, all assets shall be distributed for one or more exempt purposes.

Arenac County does levy a tax to provide services to older persons. Revenues from the tax are accounted for in a special revenue fund. An agreement for services to older persons was entered into with the Arenac County Council on Aging.

BASIS OF PRESENTATION

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the county are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES (Continued)

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Debt Service Funds

These funds are used to record revenues that are restricted for the payment of principal and interest on debt recorded in the general long-term debt account group. There are only two debt service funds. The Building Authority Debt Fund is included on Exhibits A and B and the Twining Village Sewer Debt Fund is included in the county's drain component unit.

Capital Projects Funds

These funds are used to account for the acquisition or construction of major facilities other than those financed by proprietary fund operations. The Building Authority Construction Fund is the only capital projects fund of the primary government.

PROPRIETARY FUNDS

Proprietary funds include the following fund type:

Enterprise Funds

These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust and Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES (Continued)

ACCOUNT GROUPS

General Fixed Assets Account Group

The county does not record fixed assets utilized in its operations. Only the Road Commission, a discretely presented component unit, records fixed assets in the general fixed asset account group.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt that is not recorded in proprietary or trust funds.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Arenac County conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds

The Governmental Fund Types (General, Special Revenue, Debt Service and Capital Projects Funds) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due; and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Proprietary Funds

The proprietary fund types are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The county applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

The fiduciary funds are maintained on a cash basis that is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

Budgets and Budgetary Accounting

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund, County Economic Development Corporation Fund, and the County Brownfield Redevelopment Authority Fund, whose budgets are adopted and administered by the board of county road commissioners, county economic development corporation, and county brownfield redevelopment authority, respectively. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The General Fund budget is adopted at the activity level and control is exercised at that level. The special revenue funds' budgets are adopted at the functional level and control is exercised at that level. The county board of commissioners has authorized the county treasurer to make General Fund budget transfers between activities when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval.

Also, the board of road commissioners has authorized its supervisor to amend the County Road Fund budget when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers (activities).

Budgeted revenues and expenditures, as presented in Exhibit C, include any authorized amendments to the original budgets as adopted.

Cash, Cash Equivalents and Investments

For the purpose of the statement of cash flows, demand deposits and short-term investments with maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Taxes Receivable--Current

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Although the county's 2003 ad valorem is levied and collectible on December 1st, it is the county's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the county operations.

The 2003 State equalized valuation of Arenac County amounted to \$612,484,060 and the taxable valuation is \$437,822,238, on which ad valorem taxes of 5.0195 mills were approved and levied for county operating purposes, .4640 mills for senior citizens programs, .5925 mills for county ambulance service, .9814 mills for the county's road patrol and .7850 mills for E-911 service. The 2003 current tax levy is recognized as property taxes receivable in the respective funds with an offsetting credit to deferred revenue.

Taxes Receivable--Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes levied prior to 2003. The delinquent real property taxes may be summarized as follows:

2002	\$ 526,110
2001	139,428
2000	31,855
1999	18,187
1998 and Prior	<u>222,599</u>
Total Delinquent Taxes Receivable	<u>\$ 938,179</u>

Inventories

The Road Commission (component unit) inventories, which consist of various operating parts, supplies and road materials are valued at average cost. Costs related to inventory purchases are recorded as assets when purchased and charged to expenditures when used.

General Fixed Assets and Depreciation

Except for the Road Commission (component unit), the county has not maintained records of general fixed assets as required by generally accepted accounting principles. Fixed asset purchases of the county's governmental funds are recorded as capital outlay expenditures in the appropriate activity at the time of purchase. The fixed asset purchases of the Road Commission are recorded as capital outlay expenditures in the operating fund in addition to being capitalized in the general fixed assets account group.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission fixed assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the operating fund as a charge to various expense accounts and a credit to a depreciation credits account. Accordingly, the annual depreciation expense does not affect the available operating fund equity. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years

Deferred Revenue

Deferred revenue represents amounts that have met asset recognition criteria, but have not met revenue recognition criteria, such as grants received but not earned. Under the modified accrual basis of accounting, such amounts are measurable but not available.

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

Fund Equity

Reserves of fund equity represent portions of fund equity not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Compensated Absences (Vacation and Sick Leave)

The estimated portion of the liability for vested vacation and sick leave benefits attributable to the county's governmental funds is recorded as an expenditure and liability in the respective funds. The long-term portion is recorded in the general long-term debt account group. The amounts attributable to proprietary fund and similar component units are charged to expense and a corresponding liability in the applicable fund.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts and are not reflected as expenditures in the combined financial statements. This governmental unit does not utilize encumbrances.

NOTE C--MATERIAL VIOLATIONS OF LEGAL PROVISIONS

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The county's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the county were adopted at the activity level for the General Fund and at the function level for special revenue funds.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--MATERIAL VIOLATIONS OF LEGAL PROVISIONS (Continued)

During the fiscal year ended December 31, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for General Fund and special revenue funds as follows:

Fund and Function	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government			
Computer Operations	\$ 29,871	\$ 30,475	\$ (604)
Miscellaneous	25,981	31,207	(5,226)
Capital Outlay	29,213	47,380	(18,167)
Ambulance			
Health and Welfare	246,202	246,292	(90)
Senior Citizen Millage			
Health and Welfare	206,500	206,566	(66)
Housing Commission			
Health and Welfare	274,900	281,901	(7,001)

Uniform Chart of Accounts

Arenac County has not conformed to the State Uniform Chart of Accounts as required by PA 2 of 1968, as amended.

NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county has designated five banks for deposit of the county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States Government but not the remainder of the State statutory authority listed above.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

The risk disclosures for the county's deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amounts</u>		<u>Total</u>
	<u>Primary Government</u>	<u>Component Units</u>	
Insured (FDIC)	\$ 200,000	\$ 107,936	\$ 307,936
Uninsured and Uncollateralized	2,557,562	914,656	3,472,218
Imprest Cash	<u>1,400</u>	<u></u>	<u>1,400</u>
Total Deposits	<u>\$ 2,758,962</u>	<u>\$ 1,022,592</u>	<u>\$ 3,781,554</u>

	<u>Bank Balances</u>		<u>Total</u>
	<u>Primary Government</u>	<u>Component Units</u>	
Insured (FDIC)	\$ 200,000	\$ 200,000	\$ 400,000
Uninsured and Uncollateralized	<u>2,603,671</u>	<u>1,031,936</u>	<u>3,635,607</u>
Total Deposits	<u>\$ 2,803,671</u>	<u>\$ 1,231,936</u>	<u>\$ 4,035,607</u>

GASB Statement No. 3 risk disclosures for Arenac County's investments are as follows:

	<u>Primary Government</u>		<u>Component Units</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Nonrisk-Categorized				
Government Operating	\$ 27,836	\$ 27,836		
Money Market (MM)	378,050	378,050		
MBIA CLASS	<u>520,526</u>	<u>520,526</u>	<u></u>	<u></u>
Total Nonrisk-Categorized				
Pooled Investments	<u>\$ 926,412</u>	<u>\$ 926,412</u>	<u>\$ -</u>	<u>\$ -</u>
Total Cash and Investments	<u>\$ 3,685,374</u>	<u>\$ 3,730,083</u>	<u>\$ 1,022,592</u>	<u>\$ 1,231,936</u>

The nature of the pooled investments does not allow for risk-categorization in accordance with GASB Statement No. 3.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--NOTES RECEIVABLE

The notes receivable recorded in the Housing Commission Fund are made up of the following:

Deferred Notes	<u>\$964,268</u>
Total Notes Receivable	<u><u>\$964,268</u></u>

The receivables are long-term and are offset by deferred revenue.

NOTE F--ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable for the primary government and component units:

<u>Fund</u>	<u>Accounts Receivable</u>	<u>Purpose</u>
Primary Government		
General	\$ 3,890	Miscellaneous Due From Others
Special Revenue		
E-911 Surcharge	7,541	December Surcharges Due
Enterprise		
Jail Commissary	728	Miscellaneous Due From Others
Component Units		
Road Commission	6,839	Miscellaneous Due From Others
Economic Development Corporation	<u>500</u>	Grant Administration Services
Total	<u><u>\$ 19,498</u></u>	

All receivables are expected to be collected, therefore, no allowance for doubtful accounts has been established.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES AND PAYABLES

The amounts of the interfund receivables and payables for the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 55,000	Friend of the Court	\$ 55,000
General	97,000	Delinquent Tax	97,000
Trust and Agency	<u>5,892</u>	General	<u>5,892</u>
Total	<u>\$ 157,892</u>		<u>\$ 157,892</u>

The amounts of the interfund receivables and payables for the component units are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Drain Revolving	<u>\$ 37,503</u>	Drain	<u>\$ 37,503</u>
Total	<u>\$ 37,503</u>		<u>\$ 37,503</u>

The amounts of the interfund receivables and payables between the primary government and the component units are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>\$ 500</u>	Economic Development Corp.	<u>\$ 500</u>
Total	<u>\$ 500</u>		<u>\$ 500</u>
Total Reporting Entity	<u>\$ 195,895</u>	Total Reporting Entity	<u>\$ 195,895</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--INTERFUND ADVANCES

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Fund</u>	<u>Advances to Other Funds</u>
General	<u>\$ 3,000</u>	Family Court Juvenile	<u>\$ 3,000</u>
Total Primary	<u>\$ 3,000</u>	Total Primary	<u>\$ 3,000</u>

Discrete Component Units and Primary Government

Primary Government		Component Unit	
General	<u>\$ 47,000</u>	Drain Revolving	<u>\$ 47,000</u>
Total Primary	<u>\$ 47,000</u>	Total Primary	<u>\$ 47,000</u>
Total Reporting Entity	<u>\$ 50,000</u>	Total Reporting Entity	<u>\$ 50,000</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--TRANSFERS IN AND TRANSFERS (OUT)

The 2003 operating transfers from Exhibits B, C, and D can be summarized as follows for the primary government and component units:

	<u>Transfers In</u>		<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 107,496	Delinquent Tax Revolving	\$ 147,584
Road Patrol	3,000		
Building Authority Debt	<u>37,088</u>		
Subtotal	<u>147,584</u>		
Park	5,000	General	241,278
Law Library	4,000		
Social Welfare	3,430		
Child Care Probate	190,000		
Soldiers and Sailors Relief	8,000		
Housing	<u>30,848</u>		
Subtotal	<u>241,278</u>		
Building Authority Debt	26,147	E-911 Surcharge	71,211
Building Authority Construction	<u>45,064</u>		
	71,211		
General	<u>2,557</u>	Chippewa Indian	<u>2,557</u>
Total Primary Government	<u>\$ 462,630</u>		<u>\$ 462,630</u>
Component Unit		Primary Government	
Economic Development Corporation	<u>\$ 15,000</u>	General	<u>\$ 15,000</u>
Total Component Units	<u>\$ 15,000</u>		<u>\$ 15,000</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--GENERAL FIXED ASSETS--ROAD COMMISSION

The only fixed assets recorded by the county are those of the Road Commission (component unit). A summary of the changes in the Road Commission's general fixed assets for the year ended December 31, 2003 is as follows:

	Account Balances 12/31/02	Additions	Deductions	Account Balances 12/31/03
Fixed Asset Accounts				
Land and Improvements	\$ 9,200			\$ 9,200
Buildings	370,764	\$ 2,580		373,344
Equipment	3,107,535	240,006	\$ 159,830	3,187,711
Depletable Assets	39,007			39,007
Total	3,526,506	242,586	159,830	3,609,262
Reserve for Depreciation Accounts				
Buildings	297,882	11,314		309,196
Equipment	2,622,515	188,326	159,830	2,651,011
Depletable Assets	36,970	707		37,677
Total Reserve for Depreciation Accounts	2,957,367	200,347	159,830	2,997,884
Investment in General Fixed Assets	\$ 569,139	\$ 42,239	\$ -	\$ 611,378

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Arenac County, and the changes therein, may be summarized as follows:

	Balance 01/01/03	Additions (Reductions)	Balance 12/31/03
PRIMARY GOVERNMENT			
Municipal lease purchase agreement for courthouse building renovation with capital cost of \$403,695; requires 19 semi-annual payments of \$28,184 beginning November 1998 and ending November 2006 at an interest rate of 6%	\$ 197,732	\$(45,171)	\$152,561
Arenac County Building Authority Municipal Securities for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000; maturing serially through 2021 with amounts ranging from \$25,000 to \$250,000 at an interest rate ranging from 3.8% to 5.0%	655,000	(35,000)	620,000
Accrued Employee Benefits Payable	<u>173,370</u>	<u>(778)</u>	<u>172,592</u>
Total Primary Government Long-Term Debt	<u>\$ 1,026,102</u>	<u>\$(80,949)</u>	<u>\$945,153</u>

DISCRETE COMPONENT UNITS

Drain Commission

Village of Twining Sanitary Sewer Drain, original bond dated October 9, 1989, in the amount of \$532,000 at 6.0% interest for 23 years.

	<u>\$ 387,230</u>	<u>\$(15,000)</u>	<u>\$372,230</u>
Total Drain Commission Long-Term Debt	<u>\$ 387,230</u>	<u>\$(15,000)</u>	<u>\$372,230</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--LONG-TERM DEBT (Continued)

	Balance 01/01/03	Additions (Reductions)	Balance 12/31/03
Road Commission			
Accrued Employee Benefits Payable	\$ 34,040	\$ 3,456	\$ 37,496
Total Road Commission Long-Term Debt	<u>\$ 34,040</u>	<u>\$ 3,456</u>	<u>\$ 37,496</u>
Total Discrete Component Units Long-Term Debt	<u>\$ 421,270</u>	<u>\$(11,544)</u>	<u>\$ 409,726</u>
Total Reporting Entity Long-Term Debt	<u>\$1,447,372</u>	<u>\$(92,493)</u>	<u>\$ 1,354,879</u>

Annual Principal and Interest Requirements

Primary Government

Municipal lease purchase agreement for courthouse building renovation with capital cost of \$403,695; requires 19 semi-annual payments of \$28,184 beginning November 1998 and ending November 2006 at an interest rate of 6%.

Year	Principal	Interest	Annual Total
2004	\$ 47,921	\$ 8,447	\$ 56,368
2005	50,840	5,527	56,367
2006	<u>53,800</u>	<u>2,431</u>	<u>56,231</u>
	<u>\$152,561</u>	<u>\$16,405</u>	<u>\$168,966</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--LONG-TERM DEBT (Continued)

Arenac County Building Authority Municipal Securities, dated October 1, 2001, for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000; maturing serially through 2021 with amounts ranging from 25,000 to 250,000, at an interest rate ranging from 3.8% to 5.0%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2004	\$ 35,000	\$ 26,905	\$ 61,905
2005	35,000	25,575	60,575
2006	35,000	24,245	59,245
2007	35,000	22,915	57,915
2008	35,000	21,568	56,568
Thereafter	<u>445,000</u>	<u>137,932</u>	<u>582,932</u>
	<u>\$620,000</u>	<u>\$259,140</u>	<u>\$879,140</u>

Drain (Component Unit)

Village of Twining Sanitary Sewer Drain--original bond dated October 9, 1989 in the amount of \$532,000 at 6.0% interest for 30 years.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2004	\$ 19,230	\$ 21,630	\$ 40,860
2005	16,000	20,700	36,700
2006	17,000	19,710	36,710
2007	18,000	18,120	36,120
2008	20,000	17,520	37,520
Thereafter	<u>282,000</u>	<u>96,660</u>	<u>378,660</u>
	<u>\$372,230</u>	<u>\$194,340</u>	<u>\$566,570</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE L--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The county and Road Commission (component unit) have accrued liabilities to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2003, as follows:

	<u>Vacation</u>
Primary Government General Long-Term Debt	
County General Employees	\$ 58,178
Sheriff Department Employees	69,196
E-911 Office	15,636
District Court	15,064
Circuit Court	<u>14,518</u>
Total Vested Employee Benefits Payable	
Primary Government	172,592
Component Unit General Long-Term Debt	
Road Commission Employees	<u>37,496</u>
Total Vested Employee Benefits Payable	
Reporting Entity	<u><u>\$210,088</u></u>

VACATION BENEFIT POLICIES

County General, Sheriff Department and District Court

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a bi-weekly basis. The county has established a formal policy regarding a maximum authorized accumulation of vacation hours per individual union agreement.

Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee are credited on the employee's employment at the beginning of each calendar year. Vacation pay is payable 100% to employees upon separation, not to exceed a total accumulation of 30 days.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE L--COMPENSATED ABSENCES (Continued)

SICK LEAVE BENEFIT POLICIES

County General, Sheriff Department, and District Court Employees

The county's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked.

Road Commission Employees

Sick leave is accumulated for all nonadministrative employees at a rate of one-half day (4 hours) for each month of service, not to exceed a total accumulation of 15 days. Balances over 15 days are paid out annually at 65%. Sixty-five percent of accumulated sick pay is payable to employees upon retirement or death.

Total vested vacation and sick leave has been recorded in the General Long-Term Debt Account Group. The current portion of this liability is considered immaterial and has not been included in the general operating fund balance sheet.

NOTE M--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Arenac County and the Arenac County Road Commission (component unit) are in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--EMPLOYEES' RETIREMENT PLANS (Continued)

Funding Policy--Primary Government

The obligation to contribute to and maintain the system for these employees was established by negotiation with the county's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their covered payroll, except for the District Court Steelworkers union employees, who are not required to contribute. The county has six different groups in the plan: General--Other, Sheriff, Steelworkers Local; District Court--Other, District Court Steelworkers, Elected County Officials with the pension contribution rates at 7.58 %, 9.54%, 7.44%, 0%, 6.58% and 17.00% of covered payroll at December 31, 2002, respectively.

Funding Policy--Road Commission

Road Commission employees are not required to contribute a percentage of their annual covered payroll.

The contribution requirements of the Road Commission are established and may be amended by the retirement board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission. The Road Commission makes annual contributions to the pension plan equal to the amount required by State statutes.

Annual Pension Cost

For the calendar year ended December 31, 2002, the county's annual pension cost was \$206,503 and the Road Commission's annual pension cost was \$124,597 which was equal to the county and Road Commission's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000. The county employees contributed \$65,221 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--EMPLOYEES' RETIREMENT PLANS (Continued)

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)		Percentage of APC Contributed		Net Pension Obligation	
	County	Road	County	Road	County	Road
2000	\$255,110	\$121,388	100%	100%	\$0	\$0
2001	261,615	120,954	100%	100%	0	0
2002	271,724	124,597	100%	100%	0	0

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
2000						
General	\$3,845,690	\$5,076,950	\$ (1,231,260)	76%	\$1,979,658	62%
Road	2,479,379	3,969,239	(1,489,860)	62%	819,077	182%
2001						
General	4,147,785	5,585,255	(1,437,470)	74%	2,035,933	71%
Road	2,544,995	4,224,433	(1,679,438)	60%	853,236	197%
2002						
General	4,294,146	6,265,452	(1,971,306)	69%	2,301,544	86%
Road	2,471,245	4,389,779	(1,918,534)	56%	909,258	211%

NOTE N--RISK MANAGEMENT

Primary Government

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

The county is self-insured for comprehensive liability, motor vehicle physical damage and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). All other types of risk of loss are covered through commercial insurance.

All liability claims up to \$75,000 per claim are paid from the net contribution account of the county held by the authority. In addition, after meeting certain deductible requirements, all vehicles claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$10,000 are also paid from the county's contribution account. The authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$10,000,000.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE N--RISK MANAGEMENT (Continued)

The authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunk line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the pool.

NOTE O--CONTINGENT LIABILITIES

Primary Government

The county, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The county's insurance carrier estimates that the potential claims against the county, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the county.

Road Commission (Component Unit)

The Road Commission has been named as a defendant in various litigation involving pending lawsuits and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances, should any unfavorable outcomes prevail. Accordingly, no provision for any loss has been made in the financial statements.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE P--DEFERRED COMPENSATION PLAN

Primary Government

Arenac County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

NOTE Q--FEDERAL AWARDS

The Road Commission received \$307,873 of Federal assistance that was passed through and administered by the Michigan Department of Transportation. The "pass-through" Federal assistance will be included in the State's single audit procedures and was not considered during the determination of single audit requirements of the Road Commission.

NOTE R--SEGMENT INFORMATION

The county maintains two enterprise funds which provide Delinquent Tax Revolving and Jail Commissary services. Segment information for the year ended December 31, 2003 was as follows:

	Delinquent Tax Revolving	Jail Commissary	Total
Operating Revenues	\$ 243,456	\$ 3,239	\$ 246,695
Operating Income (Loss)	243,456	(29,951)	213,505
Operating Transfers (Out)	(147,584)		(147,584)
Net Income (Loss)	121,693	(29,951)	91,742
Net Working Capital	2,161,841	7,328	2,169,169
Total Assets	3,202,760	10,517	3,213,277
Total Equity	3,100,020	8,056	3,108,076

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE S--RESTATEMENT OF FUND BALANCE--ROAD COMMISSION

During the year ended December 31, 2003, a prior period adjustment in the amount of \$26,396 was necessary to properly record for an unrecorded payable for retro pay on hours worked for the year ended December 31, 2002 and paid in the year ended December 31, 2003. The effect on the Road Commission General Operating Fund is as follows:

Fund Balance--Beginning of Year--as Previously Stated	\$ 993,017
Prior Period Adjustments	<u>(26,396)</u>
Fund Balance--Beginning of Year--as Restated	<u><u>\$ 966,621</u></u>

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT F

	Budget	Actual	Variance Favorable (Unfavorable)
Taxes and Penalties			
Current Property Taxes	\$ 2,042,143	\$ 2,042,143	-
Delinquent Personal Property Taxes	8,900	8,626	\$ (274)
Trailer Taxes	941	1,055	114
Swampland Tax	26,361	26,254	(107)
Total Taxes and Penalties	2,078,345	2,078,078	(267)
Licenses and Permits			
Clerk Licenses and Permits	1,700	1,464	(236)
Dog Licenses	7,930	8,576	646
Sheriff Licenses and Permits	1,000	791	(209)
Total Licenses and Permits	10,630	10,831	201
Federal Grants			
FEMA	10,367	6,973	(3,394)
Juvenile Accountability Block Grant	1,992	563	(1,429)
School Liaison Officer	69,000	68,616	(384)
FOC Incentive Program	7,909	7,913	4
Prosecuting Attorney--Cooperative Reimbursement Program	36,013	42,777	6,764
Total Federal Grants	125,281	126,842	1,561
State Grants			
Liquor License Fees	6,000	5,810	(190)
Probate Judges' Salary	135,000	111,377	(23,623)
Family Court State Juvenile Supplement	28,000	27,317	(683)
Circuit Judges' Supplement	46,500	40,781	(5,719)
District Judges' Supplement	46,500	39,840	(6,660)
District Court Caseflow Assistance	10,500	5,661	(4,839)
Court Funding	96,000	92,490	(3,510)
Crime Victims' Assistance	2,905	295	(2,610)
Secondary Road Patrol Program	52,000	44,411	(7,589)
Marine Safety Program	4,390	4,395	5
Prosecuting Attorney--Cooperative Reimbursement Program	2,972	1,981	(991)
Juvenile Accountability Block Grant	-	63	63
Act 302 Training	3,672	3,673	1
Driver License Restitution	2,000	1,190	(810)
Convention Facility Liquor Tax	63,208	63,204	(4)
State Cigarette Tax	14,000	10,386	(3,614)
State Revenue Sharing	313,440	312,313	(1,127)
Total State Grants	827,087	765,187	(61,900)

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT F
(CONTINUED)

	Budget	Actual	Variance Favorable (Unfavorable)
Contributions From Local Units of Government			
School Liaison Grant Match	14,738	17,572	2,834
City Road Patrol Contract	50,220	44,168	(6,052)
Total Contributions From Local Units of Government	64,958	61,740	(3,218)
Charges for Services			
Circuit Court Costs	20,000	16,636	(3,364)
District Court Costs	410,000	410,692	692
District Court Civil Fees	19,400	21,768	2,368
Probate Court Services	20,000	18,990	(1,010)
Clerk Court Fees	7,000	6,575	(425)
Court Ordered Prosecution Fees	7,500	8,300	800
Treasurer Services	5,850	6,031	181
Clerk Services	13,000	13,305	305
Register of Deeds Services	150,627	154,396	3,769
Sheriff Services	5,572	4,958	(614)
Paper Service Fees	3,400	3,832	432
Fees for Sheriff Services	4,000	2,938	(1,062)
Boat Inspections Fees	3,612	3,612	-
Fingerprint Services	1,117	661	(456)
ACL Screening	12,000	7,681	(4,319)
Record Copying and Microfilm	14,200	14,953	753
Inmates Room and Board	9,460	10,316	856
Inmate Housing Fees	7,500	8,100	600
Inmate Work Release	16,100	17,460	1,360
Social Security Incentive Jail	3,000	2,400	(600)
Diverted Felon Reimbursements	18,000	6,003	(11,997)
Animal Control Services	29,270	31,324	2,054
Guardian Homemaker Services	35,000	24,935	(10,065)
Sale of County Properties	1,000	996	(4)
Equalization Department Services	37,723	37,926	203
Miscellaneous Services	2,400	1,629	(771)
Total Charges for Services	856,731	836,417	(20,314)
Fines and Forfeits			
District Court Fines and Forfeitures	28,000	16,224	(11,776)
Total Fines and Forfeits	28,000	16,224	(11,776)
Interest and Rents			
Interest Earned on Deposits	40,654	18,035	(22,619)
Rents	7,500	7,500	-
Total Interest and Rents	48,154	25,535	(22,619)

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT F
(CONTINUED)

	Budget	Actual	Variance Favorable (Unfavorable)
Other Revenues			
Reimbursements			
Telephone	16,100	17,233	1,133
Circuit Court Wages and Fringe Benefits			
Alcona County	35,000	23,575	(11,425)
Iosco County	96,000	60,554	(35,446)
Ogemaw County	36,905	36,905	-
Oscoda County	22,000	19,849	(2,151)
Roscommon County	30,000	40,510	10,510
Insurance	17,680	17,678	(2)
Miscellaneous	3,841	2,283	(1,558)
Total Other Revenues	257,526	218,587	(38,939)
Total Revenue	4,296,712	4,139,441	(157,271)
Other Financing Sources			
Operating Transfers In--Primary Government	123,149	110,053	(13,096)
Total Other Financing Sources	123,149	110,053	(13,096)
Total Revenues and Other Financing Sources	\$ 4,419,861	\$ 4,249,494	\$ (170,367)

ARENAC COUNTY
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT G

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Board of Commissioners	\$ 96,225	\$ 88,165	\$ 8,060
Total Legislative	96,225	88,165	8,060
Judicial			
Circuit Court--Operating	197,999	163,747	34,252
Circuit Court--Shared Costs	230,909	202,540	28,369
District Court	280,871	271,779	9,092
Friend of the Court	37,800	14,146	23,654
Public Guardian	54,905	53,754	1,151
Jury Board	3,900	3,456	444
Probate Court	174,325	148,823	25,502
Adult Probation	700	646	54
Total Judicial	981,409	858,891	122,518
General Government			
Elections	1,950	1,023	927
Clerk	127,430	124,816	2,614
Equalization Department	108,720	105,958	2,762
Victim's Rights Advocate	1,694	-	1,694
Prosecuting Attorney	98,281	96,704	1,577
Prosecuting Attorney--Cooperative Reimbursement Program	50,921	48,502	2,419
Register of Deeds	70,332	67,652	2,680
Treasurer	95,325	93,795	1,530
Cooperative Extension Service	58,778	53,316	5,462
Courthouse and Grounds	179,777	179,704	73
Transportation	2,750	2,454	296
Drain Commissioner	42,059	37,790	4,269
Professional Services	20,200	19,788	412
Tax Allocation Board	250	164	86
Duplication	9,113	5,645	3,468
Microfilm	690	684	6
Telephone Lease	12,757	11,996	761
Computer Operations	29,871	30,475	(604)
Total General Government	910,898	880,466	30,432
Public Safety			
Sheriff	98,172	97,448	724
Secondary Road Patrol	38,910	38,908	2
City Car--Standish	40,030	38,167	1,863
School Liaison Officer	74,284	73,653	631
Emergency Services	15,505	14,711	794
Marine Law Enforcement	2,450	1,548	902
Jail	617,592	617,268	324
Planning Commission	650	534	116
Animal Control	51,834	47,830	4,004
Total Public Safety	939,427	930,067	9,360
Public Works			
Drains-at-Large	3,305	3,302	3
Total Public Works	3,305	3,302	3

ARENAC COUNTY
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

EXHIBIT G
(CONTINUED)

	Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare			
District Health Department	127,736	125,997	1,739
Contagious Disease	400	149	251
Substance Abuse Agency	31,602	31,602	-
Medical Examiner	20,600	20,416	184
Community Mental Health Department	104,812	104,812	-
Social Welfare	570	570	-
Veterans Burials	12,000	11,595	405
Housing Commission	700	-	700
Economic Development	3,300	3,300	-
Total Health and Welfare	301,720	298,441	3,279
Other			
Employee Fringe Benefits--Insurance	397,982	347,263	50,719
Retirement	200,137	200,068	69
Social Security--County Share	136,111	135,855	256
Insurance and Bonds	167,216	110,479	56,737
Miscellaneous	25,981	31,207	(5,226)
Total Other	927,427	824,872	102,555
Capital Outlay			
New Equipment	29,213	47,380	(18,167)
Total Capital Outlay	29,213	47,380	(18,167)
Debt Service			
Principal	45,171	45,171	-
Interest	11,196	11,196	-
Total Debt Service	56,367	56,367	-
Total Expenditures	4,245,991	3,987,951	258,040
Other Financing Uses			
Operating Transfers (Out)--Primary Government			
Law Library Fund	4,000	4,000	-
Child Care Probate Fund	200,000	190,000	10,000
Social Welfare Fund	3,430	3,430	-
Soldiers and Sailors Relief Fund	8,000	8,000	-
Park Fund	5,000	5,000	-
Housing Commission	35,171	30,848	4,323
Operating Transfers (Out)--Component Unit			
Economic Development Corporation	15,000	15,000	-
Total Other Financing Uses	270,601	256,278	14,323
Total Expenditures and Other Financing Uses	\$ 4,516,592	\$ 4,244,229	\$ 272,363

**ARENAC COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
DECEMBER 31, 2003**

EXHIBIT H

	Park	Ambulance	State Court Administration	Friend of the Court	Circuit Court Counseling	Remonu- mentation	Building Department	Register of Deeds Automation	E-911 Surcharge Wireless	Drug Law Enforcement
<u>ASSETS</u>										
Cash	\$ 17,781			\$ 3,055	\$ 25,041	\$ 5,624	\$ 44,412	\$ 27,405	\$ 106,748	\$ 2,492
Investments		\$ 246,831							24,340	
Receivables										
Taxes		258,939								
Notes										
Accounts									7,353	
Due From Other Counties				46,923						
Due From State of Michigan				34,391					20,417	
Total Assets	\$ 17,781	\$ 505,770	\$ -	\$ 84,369	\$ 25,041	\$ 5,624	\$ 44,412	\$ 27,405	\$ 158,858	\$ 2,492
<u>LIABILITIES AND FUND BALANCES</u>										
Liabilities										
Accounts Payable	\$ 45			\$ 345			\$ 6,165	\$ 21,345	\$ 337	
Due to Other Funds--Primary Government				55,000						
Due to Other Counties				12,418						
Due to State of Michigan										
Accrued Wages Payable				2,412			683			
Advances From Other Funds										
Primary Government										
Deferred Revenue--Taxes		\$ 258,939								
Deferred Revenue--Other										
Total Liabilities	45	258,939	\$ -	70,175	\$ -	\$ -	6,848	21,345	337	\$ -
Fund Balances										
Reserved for FEMA										
Unreserved and Undesignated	17,736	246,831	-	14,194	25,041	5,624	37,564	6,060	158,521	2,492
Total Fund Balances	17,736	246,831	-	14,194	25,041	5,624	37,564	6,060	158,521	2,492
Total Liabilities and Fund Balances	\$ 17,781	\$ 505,770	\$ -	\$ 84,369	\$ 25,041	\$ 5,624	\$ 44,412	\$ 27,405	\$ 158,858	\$ 2,492

**ARENAC COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
DECEMBER 31, 2003**

**EXHIBIT H
(CONTINUED)**

	Road Patrol Millage	Law Library	Senior Citizen Millage	DARE	Sheriff Department Donations	Strong Family Safe Children	Housing Commission	Chippewa Indian	Family Court Juvenile
<u>ASSETS</u>									
Cash	\$ 14,196	\$ 899	\$ 1,126		\$ 197	\$ 21,603	\$ 109,668		\$ 1,769
Investments									
Receivables									
Taxes	414,782		202,771						
Notes							964,268		
Accounts									
Due From Other Counties									
Due From State of Michigan									2,080
Total Assets	<u>\$ 428,978</u>	<u>\$ 899</u>	<u>\$ 203,897</u>	<u>\$ -</u>	<u>\$ 197</u>	<u>\$ 21,603</u>	<u>\$ 1,073,936</u>	<u>\$ -</u>	<u>\$ 3,849</u>
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable	\$ 1,145	\$ 23				\$ 2,735	\$ 8,207		
Due to Other Funds--Primary Government									
Due to Other Counties									
Due to State of Michigan									
Accrued Wages Payable	6,459								
Advances From Other Funds									
Primary Government									\$ 3,000
Deferred Revenue--Taxes	414,782		\$ 202,771						
Deferred Revenue--Other						18,868	964,268		
Total Liabilities	<u>422,386</u>	<u>\$ 23</u>	<u>202,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>21,603</u>	<u>972,475</u>	<u>\$ -</u>	<u>3,000</u>
Fund Balances									
Reserved for FEMA									
Unreserved and Undesignated	6,592	876	1,126	-	197	-	101,461	-	849
Total Fund Balances	<u>6,592</u>	<u>876</u>	<u>1,126</u>	<u>-</u>	<u>197</u>	<u>-</u>	<u>101,461</u>	<u>-</u>	<u>849</u>
Total Liabilities and Fund Balances	<u>\$ 428,978</u>	<u>\$ 899</u>	<u>\$ 203,897</u>	<u>\$ -</u>	<u>\$ 197</u>	<u>\$ 21,603</u>	<u>\$ 1,073,936</u>	<u>\$ -</u>	<u>\$ 3,849</u>

**ARENAC COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
DECEMBER 31, 2003**

**EXHIBIT H
(CONTINUED)**

	Social Welfare	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	E-911 Surcharge	E-911 Emergency	Animal Welfare	FEMA Grants	Total
<u>ASSETS</u>									
Cash	\$ 5,408	\$ 39,342	\$ 2,780	\$ 474			\$ 2,055	\$ 13,207	\$ 445,282
Investments					\$ 95,999	\$ 107,882			475,052
Receivables									
Taxes						331,767			1,208,259
Notes									964,268
Accounts					188				7,541
Due From Other Counties									46,923
Due From State of Michigan									56,888
Total Assets	\$ 5,408	\$ 39,342	\$ 2,780	\$ 474	\$ 96,187	\$ 439,649	\$ 2,055	\$ 13,207	\$ 3,204,213
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable		\$ 2,500		\$ 45		\$ 145			\$ 43,037
Due to Other Funds--Primary Government									55,000
Due to Other Counties									12,418
Due to State of Michigan		33,501							33,501
Accrued Wages Payable						6,302			15,856
Advances From Other Funds									
Primary Government									3,000
Deferred Revenue--Taxes						331,767			1,208,259
Deferred Revenue--Other									983,136
Total Liabilities	\$ -	36,001	\$ -	\$ 45	\$ -	338,214	\$ -	\$ -	2,354,207
Fund Balances									
Reserved for FEMA	24							13,207	13,231
Unreserved and Undesignated	5,384	3,341	2,780	429	96,187	101,435	2,055		836,775
Total Fund Balances	5,408	3,341	2,780	429	96,187	101,435	2,055	13,207	850,006
Total Liabilities and Fund Balances	\$ 5,408	\$ 39,342	\$ 2,780	\$ 474	\$ 96,187	\$ 439,649	\$ 2,055	\$ 13,207	\$ 3,204,213

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2003

EXHIBIT I

	Park	Ambulance	State Court Administration	Friend of the Court	Circuit Court Counseling	Remonu- mentation	Building Department	Register of Deeds Automation	E-911 Surcharge Wireless	Drug Law Enforcement
Revenues										
Taxes		\$307,606								
Licenses and Permits					\$ 2,658		\$136,448			
Federal Grants				\$ 80,138						
State Grants				3,529		\$ 27,511			\$ 84,894	
Charges for Services	\$39,275			9,216				\$ 27,405	7,552	
Fines and Forfeits										\$ 1,195
Other	8			39,125			222		50	
Total Revenues	39,283	307,606	\$ -	132,008	2,658	27,511	136,670	27,405	92,496	\$ 1,195
Expenditures										
Current										
Judicial			326	117,814	1,555					
General Government						22,664				
Public Safety							129,270		47,862	969
Health and Welfare		246,292								
Recreation and Cultural	43,390									
Capital Outlay	2,496		1,593				995	21,345	23	
Total Expenditures	45,886	246,292	1,919	117,814	1,555	22,664	130,265	21,345	47,885	969
Excess of Revenues Over (Under)										
Expenditures	(6,603)	61,314	(1,919)	14,194	1,103	4,847	6,405	6,060	44,611	226
Other Financing Sources (Uses)										
Operating Transfers In--Primary Government	5,000									
Operating Transfers (Out)--Primary Government										
Total Other Financing Sources										
(Uses)	5,000	-	-	-	-	-	-	-	-	-
Excess of Revenues and Other										
Sources Over (Under)										
Expenditures and Other Uses	(1,603)	61,314	(1,919)	14,194	1,103	4,847	6,405	6,060	44,611	226
Fund Balance--January 1, 2003	19,339	185,517	1,919	-	23,938	777	31,159	-	113,910	2,266
Fund Balance--December 31, 2003	\$17,736	\$246,831	\$ -	\$ 14,194	\$ 25,041	\$ 5,624	\$ 37,564	\$ 6,060	\$158,521	\$ 2,492

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2003

EXHIBIT I
(CONTINUED)

	Road Patrol Millage	Law Library	Senior Citizen Millage	DARE	Sheriff Department Donations	Strong Family Safe Children	Housing Commission	Chippewa Indian	Family Court Juvenile
Revenues									
Taxes	\$ 400,997		\$ 207,206						
Licenses and Permits									
Federal Grants						\$19,369	\$ 264,844		
State Grants							7,116		\$13,872
Charges for Services							32,458		
Fines and Forfeits		\$ 2,500							
Other	5,926				\$ 197			\$ 2,557	
Total Revenues	406,923	2,500	207,206	\$ -	197	19,369	304,418	2,557	13,872
Expenditures									
Current									
Judicial		7,072							
General Government									
Public Safety	397,522			148					
Health and Welfare			206,566			19,369	281,901		13,872
Recreation and Cultural									
Capital Outlay	21,935								
Total Expenditures	419,457	7,072	206,566	148	-	19,369	281,901	-	13,872
Excess of Revenues Over (Under)									
Expenditures	(12,534)	(4,572)	640	(148)	197	-	22,517	2,557	-
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government	3,000	4,000					30,848		
Operating Transfers (Out)--Primary Government								(2,557)	
Total Other Financing Sources									
(Uses)	3,000	4,000	-	-	-	-	30,848	(2,557)	-
Excess of Revenues and Other									
Sources Over (Under)									
Expenditures and Other Uses	(9,534)	(572)	640	(148)	197	-	53,365	-	-
Fund Balance--January 1, 2003	16,126	1,448	486	148	-	-	48,096	-	849
Fund Balance--December 31, 2003	\$ 6,592	\$ 876	\$ 1,126	\$ -	\$ 197	\$ -	\$ 101,461	\$ -	\$ 849

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2003

EXHIBIT I
(CONTINUED)

	Social Welfare	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	E-911 Surcharge	E-911 Emergency	Animal Welfare	FEMA Grants	Total
Revenues									
Taxes						\$320,868			\$1,236,677
Licenses and Permits									139,106
Federal Grants								\$37,706	402,057
State Grants		\$ 7,605		\$ 729					145,256
Charges for Services					\$ 82,465				198,371
Fines and Forfeits									3,695
Other	\$ 17,096	16,668			700		\$ 2,055		84,604
Total Revenues	17,096	24,273	\$ -	729	83,165	320,868	2,055	37,706	2,209,766
Expenditures									
Current									
Judicial									126,767
General Government									22,664
Public Safety					57,706	296,665			930,142
Health and Welfare	23,096	223,288	8,493	879					1,023,756
Recreation and Cultural									43,390
Capital Outlay					24,218	5,459		24,499	102,563
Total Expenditures	23,096	223,288	8,493	879	81,924	302,124	-	24,499	2,249,282
Excess of Revenues Over (Under)									
Expenditures	(6,000)	(199,015)	(8,493)	(150)	1,241	18,744	2,055	13,207	(39,516)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government	3,430	190,000	8,000						244,278
Operating Transfers (Out)--Primary Government					(71,211)				(73,768)
Total Other Financing Sources									
(Uses)	3,430	190,000	8,000	-	(71,211)	-	-	-	170,510
Excess of Revenues and Other									
Sources Over (Under)									
Expenditures and Other Uses	(2,570)	(9,015)	(493)	(150)	(69,970)	18,744	2,055	13,207	130,994
Fund Balance--January 1, 2003	7,978	12,356	3,273	579	166,157	82,691	-	-	719,012
Fund Balance--December 31, 2003	\$ 5,408	\$ 3,341	\$ 2,780	\$ 429	\$ 96,187	\$101,435	\$ 2,055	\$13,207	\$ 850,006

**ARENAC COUNTY
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
December 31, 2003**

EXHIBIT J

	Delinquent Tax Revolving	Jail Commissary	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,855,879	\$ 9,789	\$ 1,865,668
Investments	389,647		389,647
Delinquent Taxes Receivable	938,179		938,179
Accounts Receivable		728	728
Due From Other Governmental Units	8,709		8,709
Advance to Other Governmental Unit	10,346		10,346
Total Assets	\$ 3,202,760	\$ 10,517	\$ 3,213,277
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable		\$ 2,461	\$ 2,461
Due to Other Funds	\$ 97,000		97,000
Due to State	5,740		5,740
Total Liabilities	102,740	2,461	105,201
Fund Equity			
Retained Earnings			
Unreserved	3,100,020	8,056	3,108,076
Total Fund Equity	3,100,020	8,056	3,108,076
Total Liabilities and Fund Equity	\$ 3,202,760	\$ 10,517	\$ 3,213,277

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS--ENTERPRISE FUNDS
For the Year Ended December 31, 2003

EXHIBIT K

	Delinquent Tax Revolving	Jail Commissary	Total
Operating Revenues			
Interest on Delinquent Taxes	\$ 166,979		\$ 166,979
Property Tax Administration Fees	63,717		63,717
Expense of Sale	384		384
Charges for Services		\$ 3,239	3,239
Other	12,376		12,376
Total Operating Revenues	243,456	3,239	246,695
Operating Expenses			
Supplies and Materials		33,190	33,190
Total Operating Expenses	-	33,190	33,190
Net Operating Income	243,456	(29,951)	213,505
Nonoperating Revenues or (Expenses)			
Interest Earned on Deposits	25,821		25,821
Total Nonoperating Revenues (Expenses)	25,821	-	25,821
Income (Loss) Before Operating Transfers	269,277	(29,951)	239,326
Operating Transfers			
Operating Transfers (Out)	(147,584)		(147,584)
Total Operating Transfers	(147,584)	-	(147,584)
Net Income (Loss)	121,693	(29,951)	91,742
Retained Earnings--January 1, 2003	2,978,327	38,007	3,016,334
Retained Earnings--December 31, 2003	\$ 3,100,020	\$ 8,056	\$ 3,108,076

ARENAC COUNTY
COMBINING STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
ENTERPRISE FUNDS
For the Year Ended December 31, 2003

EXHIBIT L

	Delinquent Tax Revolving	Jail Commissary	Total
Cash Flows From Operating Activities			
Cash Received From Customers		\$ 2,511	\$ 2,511
Interest on Delinquent Taxes	\$ 166,979		166,979
Property Tax Administration Fees	69,755		69,755
Expense of Sale	(1,585)		(1,585)
Other Operating Revenue	12,376		12,376
Delinquent Taxes Purchased	(1,474,560)		(1,474,560)
Delinquent Taxes Collected	1,518,356		1,518,356
Cash Payments to Suppliers for Goods and Services		(31,139)	(31,139)
Net Cash Provided by Operating Activities	291,321	(28,628)	262,693
Cash Flows From Noncapital Financing Activities			
Due From Other Funds--Primary Government	20,751		20,751
Due From Other Funds--Component Units	17,542		17,542
Due to Other Funds--Primary Government	97,000		97,000
Advance to Other Funds--Primary Government	5,678		5,678
Transfers (Out)	(147,584)		(147,584)
Net Cash Provided by Noncapital Financing Activities	(6,613)	-	(6,613)
Cash Flows From Investing Activities			
Sale or (Purchase) of Investments	(3,794)		(3,794)
Interest on Cash Equivalents	25,821		25,821
Net Cash Provided by Investing Activities	22,027	-	22,027
Net Increase (Decrease) in Cash and Cash Equivalents	306,735	(28,628)	278,107
Cash and Cash Equivalents--January 1, 2003	1,549,144	38,417	1,587,561
Cash and Cash Equivalents--December 31, 2003	<u>\$ 1,855,879</u>	<u>\$ 9,789</u>	<u>\$ 1,865,668</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 243,456	\$ (29,951)	\$ 213,505
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Increase (Decrease) in Accounts Receivable		(728)	(728)
Increase (Decrease) in Due From Other Units	6,038		6,038
Increase (Decrease) in Delinquent Taxes Receivable	43,796		43,796
Increase (Decrease) in Accounts Payable		2,051	2,051
Increase (Decrease) in Due to State	(1,969)		(1,969)
Net Cash Provided by Operating Activities	<u>\$ 291,321</u>	<u>\$ (28,628)</u>	<u>\$ 262,693</u>

**ARENAC COUNTY
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
December 31, 2003**

EXHIBIT M

AGENCY FUNDS

	Trust and Agency	District Court Trust	Library (Penal Fines)	Total
<u>ASSETS</u>				
Cash	\$ 310,105	\$ 25,564	\$ 87,739	\$ 423,408
Due From Other Funds	5,892			5,892
Total Assets	<u>\$ 315,997</u>	<u>\$ 25,564</u>	<u>\$ 87,739</u>	<u>\$ 429,300</u>
<u>LIABILITIES</u>				
Due to State of Michigan	\$ 39,669			\$ 39,669
Undistributed Tax Collections	192,620			192,620
Undistributed Penal Fines			\$ 87,739	87,739
Other Liabilities	83,708	\$ 25,564		109,272
Total Liabilities	<u>\$ 315,997</u>	<u>\$ 25,564</u>	<u>\$ 87,739</u>	<u>\$ 429,300</u>

ARENAC COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES--ALL AGENCY FUNDS
For the Year Ended December 31, 2003

EXHIBIT N

	Balance 01/01/03	Additions	Deductions	Balance 12/31/03
<u>TRUST AND AGENCY FUND</u>				
Assets				
Cash	\$ 5,196	\$ 9,859,267	\$ 9,554,358	\$ 310,105
Investments	513,797		513,797	-
Due From Other Funds	-	5,892		5,892
Total Assets	<u>\$ 518,993</u>	<u>\$ 9,865,159</u>	<u>\$ 10,068,155</u>	<u>\$ 315,997</u>
Liabilities				
Due to State of Michigan	\$ 2,532	\$ 1,463,740	\$ 1,426,603	\$ 39,669
Undistributed Tax Collections	423,748	7,459,096	7,690,224	192,620
Other Liabilities	92,713	11,029,432	11,038,437	83,708
Total Liabilities	<u>\$ 518,993</u>	<u>\$ 19,952,268</u>	<u>\$ 20,155,264</u>	<u>\$ 315,997</u>
<u>DISTRICT COURT TRUST FUND</u>				
Assets				
Cash	<u>\$ 24,257</u>	<u>\$ 222,817</u>	<u>\$ 221,510</u>	<u>\$ 25,564</u>
Liabilities				
Court Items Payable	<u>\$ 24,257</u>	<u>\$ 222,817</u>	<u>\$ 221,510</u>	<u>\$ 25,564</u>
<u>LIBRARY (PENAL FINES) FUND</u>				
Assets				
Cash	<u>\$ 80,054</u>	<u>\$ 166,134</u>	<u>\$ 158,449</u>	<u>\$ 87,739</u>
Liabilities				
Undistributed Penal Fines	<u>\$ 80,054</u>	<u>\$ 166,134</u>	<u>\$ 158,449</u>	<u>\$ 87,739</u>

ARENAC COUNTY
COMBINING BALANCE SHEET
DRAIN COMPONENT UNIT
December 31, 2003

EXHIBIT O

	DEBT SERVICE FUND		ACCOUNT GROUP		
	CAPITAL PROJECT FUNDS				
	Twining Village Sewer	Drain	Drain Revolving	General Long-Term Debt	Total
<u>ASSETS</u>					
Cash		\$ 133,475	\$ 9,497		\$ 142,972
Special Assessments Receivable		52,813			52,813
Due From Other Funds--Component Units			37,503		37,503
Amount to be Proved for Retirement of General Long-Term Debt				\$ 372,230	372,230
Total Assets	\$ -	\$ 186,288	\$ 47,000	\$ 372,230	\$ 605,518
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Due to Other Funds--Component Units		\$ 37,503			\$ 37,503
Advances From Other Funds--Primary Government			\$ 47,000		47,000
Bonds Payable				\$ 372,230	372,230
Deferred Revenue		52,813			52,813
Total Liabilities	\$ -	90,316	47,000	372,230	509,546
Fund Balance					
Unreserved--Undesignated		95,972			95,972
Total Fund Balance	-	95,972	-	-	95,972
Total Liabilities and Fund Balance	\$ -	\$ 186,288	\$ 47,000	\$ 372,230	\$ 605,518

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
DRAIN COMPONENT UNIT
For The Year Ended December 31, 2003

EXHIBIT P

	<u>DEBT SERVICE FUND</u>	<u>CAPITAL PROJECTS FUNDS</u>		
	Twining Village Sewer	Drain	Drain Revolving	Total
Revenues				
Local Unit Contributions	\$ 37,499			\$ 37,499
Special Assessments		\$ 25,113		25,113
Total Revenues	37,499	25,113	\$ -	62,612
Expenditures				
Public Works		10,308		10,308
Debt Service				
Principal	15,000	6,651		21,651
Interest and Fiscal Fees	22,530	654		23,184
Total Expenditures	37,530	17,613	-	55,143
Excess of Revenues Over (Under) Expenditures	(31)	7,500	-	7,469
Fund Balance--January 1, 2003	31	88,472	-	88,503
Fund Balance--December 31, 2003	\$ -	\$ 95,972	\$ -	\$ 95,972

ARENAC COUNTY HOUSING COMMISSION
(Grantee Name)

Grant No. MSC-2003-0322-HOA

Application of State Block Grant Funds
Michigan Community Development Block Grant

For the Grant Period January 1, 2003 through December 31, 2004
As of December 31, 2003

<u>Activity</u>	Authorized Costs	Actual Costs	Variance Under (Over)
Single Family Housing Rehab	\$ 116,500	\$116,500	-
Emergency Assistance	18,000	18,000	-
Replacement	40,000		\$ 40,000
New Construction (Habitat)	10,000	5,000	5,000
Administrative	40,500	27,401	13,099
Subtotal	225,000	166,901	58,099
<u>Other Funds/Sources</u>			
Matching Funds	56,250	46,332	9,918
Subtotal	56,250	46,332	9,918
Total	\$ 281,250	\$213,233	\$ 68,017

ARENAC COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)(2)
For the Year Ended December 31, 2003

SCHEDULE 2

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
Department of Agriculture--Rural Development Passed Through Michigan State Housing Development Authority Rural Preservation Grant	10.433	(3)	\$ 39,296	\$ 39,296
Total Department of Agriculture			39,296	39,296
Department of Housing and Urban Development Passed Through Michigan State Housing Development Authority Program Income Community Development Block Grant/State's Program	14.228	MSC-2003-0322-HOA	58,647 166,901	58,782 166,901
Total Department of Housing and Urban Development			225,548	225,683
Department of Justice Passed Through Michigan Family Independence Agency Office of Juvenile Justice Juvenile Accountability Incentive Block Grant	16.523	JABGN-03-06001	563	563
Passed Through Michigan Department of Community Health Office of Drug Control Policy Local Law Enforcement Block Grant--School Liaison Local Law Enforcement Block Grant--School Liaison	16.592 16.592	2002-LB-BX-1317 9XLBVX0344	49,940 18,676	49,940 18,676
Total Department of Justice			69,179	69,179
Department of Health and Human Services Passed Through Michigan Family Independence Agency Family Preservation and Support Services (Title IV-B Subpart 2) Strong Families Safe Children ADC Incentive Program Child Support Enforcement (Title IV-D) Prosecuting Attorney Prosecuting Attorney Friend of the Court	93.556 93.560 93.563 93.563 93.563	SFSC-02-06003-2 (3) CS/PA-03-06002 CS/PA-04-06002 CS/FOC-04-06001	19,369 17,778 32,101 10,676 28,572	19,369 (4) 32,101 10,676 28,572
Passed Through Iosco County Child Support Enforcement (Title IV-D) Friend of the Court	93.563	(3)	41,701	41,701
Total Department of Health and Human Services			150,197	132,419
US Department of Homeland Security Passed Through Michigan Department of State Police State Domestic Preparedness Equipment Grant (5) Emergency Management Performance Grant (5)	97.004 97.042	(3) (3)	37,706 6,973	24,499 6,973
Total US Department of Homeland Security			44,679	31,472
TOTAL REPORTING ENTITY			\$ 528,899	\$ 498,049

See Notes to Schedule of Expenditures of Federal Awards.

ARENAC COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2003

- (1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Arenac County, except for the Arenac County Road Commission which was audited by other auditors. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.
- (2) The accompanying Schedule of Expenditures of Federal awards is presented using the modified accrual basis of accounting, which is described in Note B of the county's general purpose financial statements.
- (3) Pass-through grantor's number was not available.
- (4) Revenue from this grant is based on collection effort only, with no directly related expenditures.
- (5) The State Domestic Preparedness Equipment Grant and Emergency Management Performance Grant were formerly listed with CFDA numbers 16.007 and 83.552. In September 2003, these programs were moved to the Department of Homeland Security and assigned the new CFDA numbers 97.004 and 97.042.

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: qualified

Internal control over financial reporting:

Material weakness(es) identified?	<u>✓</u>	Yes	<u> </u>	No
Reportable condition(s) identified that are not considered to be material weaknesses?	<u>✓</u>	Yes	<u> </u>	No
Noncompliance material to financial Statements noted?	<u> </u>	Yes	<u>✓</u>	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	<u> </u>	Yes	<u>✓</u>	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u>	Yes	<u>✓</u>	None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are Required to be reported in accordance with Section 510(a) of Circular A-133?	<u> </u>	Yes	<u>✓</u>	No
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Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

**Section I--Summary of Auditor's Results
(Continued)**

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
16.592	Local Law Enforcement Block Grants Program

Dollar threshold used to distinguish
Between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ Yes ✓ No

Section II--Financial Statement Findings

MATERIAL INTERNAL CONTROL STRUCTURE WEAKNESSES

The following is a detailed description and recommendation of the reportable conditions that we consider to be a material weakness involving the internal control structure.

Board of Commissioners--General Fixed Assets

Finding 99-11

Condition: The county does not maintain adequate internal controls for fixed assets and a general fixed asset account group is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the county to update the fixed assets for additions and deletions. The county did not provide us with any records of fixed assets owned by the county.

Recommendation: We recommend that the county develop a property management system that includes all of the following steps:

An inventory of all fixed assets owned by the county should be taken and included in the permanent records of the county on at least an annual basis.

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

**Section II--Financial Statement Findings
(Continued)**

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

All assets owned by the county should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the county to be removed or used by unauthorized personnel.

As part of the property management system, the county should keep records on all of the assets owned by the county, which include the following information:

- Date of Acquisition
- Tag Number
- Description of Property
- Original Cost of Asset
- Location of Asset
- Date of Disposal (when sold or scrapped)
- Salvage Value (if any)

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets; it will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires fixed assets to be included in the financial statements of the county.

Management's Response--Corrective Action Plan: Contact person is Dennis Stawowy, Arenac County Treasurer, 120 North Grove Street, P.O. Box 637, Standish, Michigan 48658. Telephone (989) 846-4106.

During 2004, more progress will be made with the board office compiling a master list of each department's equipment. After reviewing that list, the board will set a minimum dollar amount to be used when listing fixed assets. The treasurer's office has compiled a list of assets to be used by our insurance carrier that could also be used for property and building values. Software to link this data to our general ledger will then be purchased.

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

**Section II--Financial Statement Findings
(Continued)**

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Sheriff Department--General Inmate Fund Bank Account Reconciliation

Finding 00-10

Condition: The general inmate fund bank account balance is not reconciled monthly to the checkbook balance administered by jail personnel.

Criteria: All bank accounts must be reconciled in a timely manner and reconciled to subsidiary records. The reconciliation must contain a listing of deposits in transit and outstanding checks. All discrepancies must be investigated.

Recommendation: We recommend that the bank balance be reconciled to the checkbook balance and the checkbook balance be reconciled to the total inmate account balances, after all commissions earned from commissary sales are transmitted to the county treasurer. Any discrepancies should be investigated and corrected promptly. This should be done monthly on a timely basis.

Management's Response--Corrective Action Plan: Contact person is James Mosciski, Arenac County Sheriff, 120 North Grove Street, P.O. Box 606, Standish, Michigan 48658. Telephone (989) 846-4561.

The Arenac County Sheriff Department will begin to reconcile the inmate account balance by applying the necessary procedures to correct the account.

OTHER REPORTABLE CONDITIONS

Although the following is not considered a material weakness in internal control, our review disclosed a reportable condition which we wish to point out for consideration by management and the Arenac County Board of Commissioners.

Treasurer and Board of Commissioners--Minimum Number of Special Revenue Funds *Finding 00-4*

Condition: The county currently has a large number of special revenue funds including three Emergency 911 funds.

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

Section II--Financial Statement Findings
(Continued)

OTHER REPORTABLE CONDITIONS (Continued)

Criteria: According to the National Council of Governmental Accounting (NCGA), Statement No. 1, paragraph 4, governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Recommendation: We recommend that the county combine all Emergency 911 funds into fund 261.

Management's Response--Corrective Action Plan: Contact person is Dennis Stawowy, Arenac County Treasurer, 120 North Grove Street, P.O. Box 637, Standish, Michigan 48658. Telephone (989) 846-4106.

We plan to combine those funds where recommended and keep different activity numbers within them. Beginning next year (2004), all expenditures and revenues for Emergency 911 will be in the 261 fund.

NONCOMPLIANCE WITH STATE STATUTES

Treasurer--Conformity With the Uniform Chart of Accounts

Finding 99-7

Condition: Some of the fund and activity numbers do not conform to the State Uniform Chart of Accounts. Currently, several of the funds listed below are numbered as enterprise funds and should be special revenue funds pursuant to the Uniform Chart of Accounts. This is not an all inclusive list of changes necessary to be in compliance with the Uniform Chart of Accounts.

	County Fund No.	Uniform Chart of Accounts Fund No.
FEMA Grants	598	Open 211
Housing	535	276
Drain Revolving	670	802

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

**Section II--Financial Statement Findings
(Continued)**

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Criteria: Section 1 of Public Act 2 of 1968 provides in part: "The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government... The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts."

The Uniform Chart of Accounts defines special revenue funds as funds used to account for the proceeds of specific revenue sources or to finance specified activities in accordance with statutory or administrative requirements. This includes most taxes voted for specific purposes and other earmarked revenues not included within other fund categories.

Enterprise funds are used to account for the financing of services provided to the general public where all or most of the costs involved are recovered through service charges to the users of such services. Revenues and expenditures are accounted for similar to a business enterprise.

Recommendation: The fund and activity numbers should be classified as special revenue funds because the money received is to "finance specified activities in accordance with statutory or administrative requirements" (State of Michigan Chart of Accounts p. 32). The county should make the fund number changes as indicated above.

Management's Response--Corrective Action Plan: Contact person is Dennis Stawowy, Arenac County Treasurer, 120 North Grove Street, P.O. Box 637, Standish, Michigan 48658. Telephone (989) 846-4106.

Fund numbers will be corrected and a cross-index established for prior years history information beginning with January 1, 2004.

Expenditures in Excess of Appropriations--County's Budgetary Funds

Finding 03-1

Condition: Our examination of procedures used by the county to adopt and maintain operating budgets for the county's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

**Section II--Financial Statement Findings
(Continued)**

NONCOMPLIANCE WITH STATE STATUTES (Continued)

The county's 2003 General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled to the activity level by the county. As detailed below, actual 2003 expenditures exceeded the board's approved budget allocations for several general fund and special revenue fund activities.

During the fiscal year ended December 31, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund and special revenue funds as follows:

<u>Fund and Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government			
Computer Operations	\$ 29,871	\$ 30,475	\$ (604)
Miscellaneous	25,981	31,207	(5,226)
Capital Outlay	29,213	47,380	(18,167)
Ambulance			
Health and Welfare	246,202	246,292	(90)
Senior Citizen Millage			
Health and Welfare	206,500	206,566	(66)
Housing Commission			
Health and Welfare	274,900	281,901	(7,001)
Child Care Probate			
Health and Welfare	216,000	223,287	(7,287)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

Recommendation: We recommend that the county's chief administrative officer (county treasurer), boards and commissions, and administrative personnel (responsible for administering the activities of the various funds of the county) to develop budgetary control procedures for the general fund and special revenue funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof. These procedures should include a requirement that each county department head be responsible for monitoring the budgetary status of his or her activity(ies) monthly. Department heads must also be required to make formal requests to the county treasurer for budget amendments prior to incurring expenditures in excess of board authorized amounts.

Arenac County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

**Section II--Financial Statement Findings
(Continued)**

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Management's Response--Corrective Action Plan: Contact person is Dennis Stawowy, Arenac County Treasurer, 120 North Grove Street, P.O. Box 637, Standish, Michigan 48658. Telephone (989) 846-4626.

Management has agreed to correct the problem by monitoring the budgets more closely and making budget amendments on a timely basis. With the help of the department heads, budget adjustments will be requested before the bills are presented for payment.

Section III--Federal Award Findings and Questioned Costs

No matters were reported.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 11, 2004

County of Arenac
Board of County Commissioners
120 North Grove Street
Standish, Michigan 48658

RE: Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the accompanying general purpose financial statements of Arenac County, Michigan, as of and for the year ended December 31, 2003, and have issued our report thereon dated March 11, 2004. We did not audit the financial statements of the Arenac County Road Commission (special revenue component unit) which statements reflect total assets of \$2,009,980 as of December 31, 2003 and total revenues of \$3,762,626 for the year then ended. These financial statements were audited by other auditors. Our opinion on the financial statements, insofar as it relates to the amounts included for the Arenac County Road Commission in the component units column, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Arenac County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we did note other instances of noncompliance described in the accompanying Schedule of Findings and Questioned Costs as findings 99-7 and 03-1.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Arenac County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Arenac County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 99-11, 00-4, and 00-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider findings 99-11 and 00-10 to be material weaknesses.

This report is intended solely for the information of the board of commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 11, 2004

County of Arenac
Board of County Commissioners
120 North Grove Street
Standish, Michigan 48658

RE: Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133

Dear Commissioners:

Compliance--We have audited the compliance of Arenac County with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended December 31, 2003. Arenac County's major Federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Arenac County's management. Our responsibility is to express an opinion on Arenac County's compliance based on our audit.

Arenac County's general purpose financial statements include the operations of the Arenac County Road Commission (special revenue component unit), which received \$307,873 in Federal Awards and is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2003. The Road Commission was audited by other auditors and it was determined that the Road Commission received and expended \$307,873 of Federal assistance that was passed through and administered by the Michigan Department of Transportation. The "pass-through" Federal assistance will be included in the State's single audit procedures and was not considered during the determination of single audit requirements of the Road Commission. Our audit, described below, did not include the operations of the Arenac County Road Commission (special revenue component unit) because a single audit was not required in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major Federal program occurred.

An audit includes examining, on a test basis, evidence about Arenac County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Arenac County's compliance with those requirements.

In our opinion, Arenac County complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2003.

Internal Control Over Compliance--The management of Arenac County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Arenac County's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division